This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS HARARE 000531

SIPDIS

STATE FOR AF/S
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
PASS USTR ROSA WHITAKER
TREASURY FOR ED BARBER AND C WILKINSON
STATE PASS USAID FOR MARJORIE COPSON

¶E. O. 12958: N/A
TAGS: ECON EINV ETRD ZI
SUBJECT: Economic Reform Still Meager

Ref: a) Harare 433 b) Harare 409 c) Harare 489 d) Harare 448 e) Harare 468

¶1. Summary: By abandoning a fanciful official exchange rate, the GOZ has taken its first baby steps toward economic reform. If serious, its next target should be price controls. End summary.

Reforms to Date

¶2. In past weeks, the GOZ has finally recognized that an official rate of Z$ 55:US$ 1 makes little sense. (The market rate is currently 1420:1.) The hard-line policy of last November 14's budget announcement nearly destroyed export revenue. Under the new policy, most exchanges take place at 824:1 and exporters enjoy a blend rate of around 1120:1 (ref a). As we have reported, the GOZ is also bringing tariffs for fuel (ref b) and energy (ref c) more in line with their U.S. dollar values.

¶3. These are positive moves. However, the Government will have to raise prices to a point that does not discourage production, especially for net importers, if it wants to arrest the country's economic demise. Controls have meant that retail prices are often a fraction of production cost (ref d-e). Most staples are only available on the black market. Government and manufacturers play a continual cat-and-mouse repackaging game by alternately enforcing and dodging these irrational limits. Secret service (CIO) agents oversee production lines to ensure companies are not selling wares at (gasp!) fair market value. Needless to say, this is no way to run a modern economy.

Comment

¶4. The business community is visibly relieved by the GOZ's newfound recognition of market values for exports, fuel and energy. Given that the GOZ was receiving almost no export revenue and unable to pay imported fuel and energy costs, these were low-risk reforms. Future measures will be more difficult. Prices and borrowing rates will have to rise much faster than wages, making Zimbabweans painfully aware of their impoverishment.

¶5. In addition to relaxing price controls, meaningful economic reform would entail reining in money supply, allowing interest rates to rise and rebuilding the agricultural sector. Conversion rates into foreign exchange would become a measure of productivity rather than, at 55:1, an abstraction that obscures Zimbabwe's economic slide. Is the Government of Robert Mugabe capable of facing this harsh reality, even if the alternative is continued double-digit negative growth? Hard to say. But it will be a long journey back to Earth for a government that still refuses to acknowledge a devaluation by name (approved euphemism is "export support mechanism") and blames the economic downturn on fabricated trade sanctions (as in the newly-released National Economic Revival Program).

Sullivan